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CLIMATE CHANGE

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Today's economy is not fit for purpose. Two hundred fifty years ago, there were fewer than one billion people on Earth. Back then, Earth's resources – and its resilience in the face of our demand for them – must have seemed limitless. So it should come as no surprise that classical economics – which dates from that period – did not consider the fact that we live in a finite, resource-constrained world. That belief set the tone for the way we have done business for generations: producing, consuming, and disposing of ever more stuff, without weighing up the long-term consequences.

Decades of industrialisation powered by cheap fossil fuels, rapid population growth, and widespread encroachment on the natural world have taken their toll. Ever-more extreme weather events, coupled with a huge drop in soil fertility due to intensive agriculture, are affecting crop yields around the globe. Fresh water is scarce in many areas. Many natural resources that were once plentiful are now harder and costlier to obtain. The long-lasting effects of these climatic changes are often felt first by those who are financially and physically vulnerable. But their shockwaves – in the form of economic migration, supply chain disruptions, and the rise of populism, to name a few – impact us all. There are now around 7.5 billion people on the planet,

and two billion more are set to join us by 2050. If everyone is to have the opportunity and capacity to lead a fulfilling life, things need to change fast.

A global response: the SDGs

Recognizing the extent of the challenges facing humanity, world governments came together in 2015 to launch the UN Sustainable Development Goals (SDGs). The SDGs – which were co-created with academic experts, business leaders, and civil society advocates – are a rallying call for everyone, from nation states to corporations. There are 17 SDGs in total, underpinned by 169 targets which all UN member states have committed to reaching by 2030. They offer all economic actors something that has been sorely lacking: a shared vision for the problems we must solve, and a common vocabulary for directing and describing progress. Yet five years on from their launch, bold ambition has translated only into modest action.

Enter the novel coronavirus: an unexpected opportunity

Covid-19 created a rare peacetime opportunity to challenge many of our unquestioned assumptions about the roles of business and government. Our collective response to the crisis, while far from over, shone a spotlight on the limitations inherent in our current socioeconomic system – and there is much we can learn from as we seek to build back better. Clearly, we have not been adequately valuing everything that should be valued. The pandemic surfaced a disconnect between what really matters (essential needs) and what doesn't (non-essential wants), and much of our economic activity suddenly started to appear frivolous.

We aren't well equipped to understand systemic risks

When the pandemic hit, it quickly surfaced that experts had been warning global governments for many years about the inevitability of such an event. Yet those in power did not grasp the systemic nature of the pandemic risk – and therefore the full extent of the disruption it would cause. Even in debates on national responses to the pandemic, people can be heard arguing about whether to pay more attention to the health crisis or the economic

crisis, as if they are separable. In an increasingly volatile, uncertain, complex, and ambiguous world, we need to get better at understanding the interdependent systemic contexts we operate within.

There is no going back

To avoid this level of economic disruption again – be it due to another virus, failed harvests, extreme weather, or myriad other events – a new course needs to be charted: one which regenerates Earth’s natural systems, rebuilds our social fabric, and in so doing increases our resilience to future shocks. Climate change responses should therefore be enriching our system intelligence, valuing what really matters, and pursuing extra-financial success.

Enriching our systems intelligence

Businesses need better systems intelligence if they are to effectively anticipate, prepare for, and respond to future shocks. The confluence of societal, environmental, and technological macro-level forces, as described below, is already disrupting entire industries.

- Societal pressures: Social norms and people’s needs are shifting, in response to factors as diverse as mass economic migration and work-force automation – all exacerbated by a rapidly growing and ageing population.
- Environmental pressures: These range from more intense and frequent droughts and flooding brought on by the climate crisis, to the build-up of pollutants in nature, and increasing competition for natural resources.
- Technological pressures: A number of emerging technologies – artificial intelligence, 3D printing, and gene therapy, to name a few – are making it possible to meet societal needs in completely new and far less impactful ways.

Every twenty-first-century business would be wise to embrace this new perspective, to enrich its systems intelligence and thereby increase its chances of success.

Valuing what really matters

Today the global economy focuses almost exclusively on growth of production and consumption. As money changes hands when goods and services are bought and sold, our economic system has evolved to treat financial returns and value creation as one and the same thing. This evolution has been a consequence of the fact that every major nation on Earth has sought to maximise GDP since soon after the Second World War. This is why central banks and governments expend so much effort tweaking interest rates and other factors trying to adjust borrowing and spending patterns in pursuit of never-ending growth. It is also why companies seek out the cheapest, legally acceptable route to getting something done. If that route results in generating waste, overharvesting raw materials, using creative approaches to pay less tax, or outsourcing work to regions with less progressive labour standards, so be it.

Such negative impacts occur not because decisions makers are blind to social and environmental concerns, but because the economic context within which they are operating is not adequately driving the right kinds of outcome. As long as our economic system pursues GDP alone, restorative outcomes will remain the exception rather than the norm.

Pursuing extra-financial success

Companies that focus on extra-financial success in the years ahead will increase their own resilience and that of society as a whole. Social and environmental issues are extra-financial, because enduring financial success today depends on the degree to which we can find new ways to meet societal needs while restoring the natural world and our social fabric.

We end this chapter with some simple questions which business leaders should ask themselves, to start embracing and operationalising this new mindset.

Resilient versus efficient

One of the most common ways for companies to improve their financial bottom line is through efficiency drives. When it comes to resource use, this

makes complete sense. Reducing the amount of materials used in products and packaging prevents waste. Reducing water use – particularly in water-stressed regions – eases the burden on a public resource everybody needs. However, efficiency measures undermine resilience if they reduce the capacity of a business to cope with unforeseen circumstances.

- How resilient is our business to external shocks?
- What steps can we take to help us as a board, and our business activities, become more resilient?
- How can we ensure that our activities are creating value for society as a whole in the long term?
- How can we reduce our greenhouse gas (GHG) emissions to zero – decreasing risk and benefiting society – throughout our supply chain, operations, and products?
- Can we go beyond zero and use product inputs, design operational processes, or produce products that draw down GHGs from the atmosphere?

Competitive versus compliant

It is bad for business and bad for society when environmental, social, and governance issues are seen as matters of legal compliance.

For one thing, regulations relating to environmental and social protection almost invariably lag behind what science tells us is required. So merely obeying the law, on issues ranging from toxic waste to working conditions, rarely equates to causing no harm. Secondly, it can be more expensive for a business to continuously monitor and gradually adapt to changes in legislation than to eliminate the risk entirely through preventative action. Any company which has eliminated its greenhouse gas emissions, for example, is immune to any future carbon tax.

Getting ahead of environmental and social issues is about competitiveness, not compliance. Progressive companies do what society actually needs, rather than what laws currently demand. And they leverage that fact – lobbying for more progressive legislation, knowing that they will benefit reputationally from doing so, while increasing pressure on their peers to step up.

- What response will both serve society and give us a competitive edge?
- Do we know what need we are serving, or are we just selling things?
- What can we do better in order to increase our support to succeed?
- How can we prove that our actions are authentic, not just green-washing?
- Can we lobby government and regulators to demand progressive legislation, requiring our industry as a whole to take climate action?

Holistic versus defensive or selective

Even though the SDGs have been described as a crowd-sourced “purchase order from the future,”¹ most companies have not yet adequately answered their call to action. Many current responses seek to defend the status quo, by building a narrative around what a business is already doing. However, this does not reflect reality as every business decision is in fact a trade-off (either negative or positive). If we take a systems approach – by looking at all interactions between the company and its suppliers, its customers, other socioeconomic actors, and the environment – it is possible to identify otherwise unforeseen issues. Negative trade-offs can then be anticipated and avoided – or at the very least mitigated.

This systemic approach to managing extra-financial performance is crucial, because positive and negative impacts almost never cancel each other out. Gradual gains in one area, at the expense of exacerbating problems elsewhere, aren’t going to fix things. We must eliminate – and eventually reverse – all of the damage done to our natural systems and social fabric, and that means striving to maximise the good while working consciously and continuously to eliminate the bad. Such a holistic response is essential if we are to make the SDGs a reality. We can think of this third way as creating not just shareholder value, or even shared value, but system value.

- Is our SDG response holistic? And if not, what would that take?
- Are we clear on our organisational systemic interdependencies?

1 “Breakthrough Business Models” by Volans and the Business and Sustainable Development Commission (<http://businesscommission.org/our-work/paper-new-breakthrough-business-models-needed>).

- How might we redeploy our core competencies, existing assets, and know-how in completely new ways to make money in service of the SDGs?
- Are we doing everything possible to eliminate our own negative impact, throughout our value web, with respect to climate change?
- Are we doing everything possible to increase our own positive impact, or to help others eliminate their negative and increase their positive impacts, with respect to climate change?

That's the way to build a twenty-first-century business that people will really want to work for, buy from, and invest in.